YOUNG ENTERPRISE SHARES (YES) REVIEW

Second Quarter 2013

PERFORMANCE COMMENTARY

You can find evidence in the table of indexes immediately following that share prices of smaller enterprises have begun to play catch-up to the persisting general market uptrend, after having spent a decade or so as an out-of-favor market sector. This shows also in the relative gains in your ownership experience in 2013 thus far. Shares of young companies possessing important intellectual property have rarely been so cheap. That partially explains an evident renewal of investor interest. Enterprise progress for our selections (with very few noteworthy exceptions) has been favorable. Going forward, rapidly growing young companies seem likely to earn, eventually, consideration as a preferred way to cope with a slow-growth economy. Thus, expect continued superior relative performance, in an irregular pattern, of course.

			Periods Ending June 30, 2013			
	QTR	**YTD**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
YES Composite - GROSS	**9.8**	**27.5**	**18.2**	**12.8**	**7.5**	**8.1**
Russell MicroCap Growth Index	6.2	22.0	25.7	19.3	9.0	7.3
S&P 500 Index	2.9	13.8	20.6	18.5	7.0	7.3
Dow Jones Industrial Average	2.8	15.2	18.8	18.2	8.6	7.9

Composite performance is reported GROSS of fees and expenses. Please refer to the disclosures at the end of this report.
Performance figures for periods one year and longer are annualized.

Benefiting from the interest in health care, **ISIS Pharmaceuticals (ISIS)** and **Morphosys (MPSFY)** were up 58% and 38% in the quarter. We bought **NeoPhotonics (NPTN)** in the first quarter and our timing was fortuitous as the stock was up 70%. One of last quarter's leaders, **Vertex (VRTX)**, continued to announce positive developments in treating Cystic Fibrosis and was up 45%. **Solazyme (SZYM)** was up 50% despite a sell off after the dissolution of a joint venture. SZYM is a leader in converting micro algae into oils and has much more to its technology than just bio fuels. The company wanted to increase the pace of its development efforts in adding nutritional content into foods.

On the downside, **Hansen Medical (HNSN)**, down again this quarter (-29%), continues to struggle with adaption rates of its robotic vascular surgery offering. Management issues (not uncommon in young emerging companies) have also negatively impacted the company. We are impressed by the technology but are frustrated as investors. We continue to evaluate the merits of holding the shares. **Universal Display (OLED)**, down 10%, changed its symbol to one more appropriate to its product offering (organic light emitting diodes), but the stock price continues to be influenced by headlines relating to volume demand from its largest customer, Samsung. **BioLase Technology (BIOL)** was off 9%, but considering it was up 115% the prior quarter is certainly an acceptable consolidation. **AXT**

(AXTI) was down 8% as a dated, less efficient but cheaper alternative technology impacted revenues. At this juncture we think AXT's superior product offering will prevail. **Cavium Networks (CAVM),** which has performed well for us overall, was down 9%.

PORTFOLIO ACTIVITY

There were two additions to investment holdings in the quarter: **Maxwell Technologies (MXWL)**, for its ultra capacitors to retain electric energy for an interval to its expected nearby use, and **Sangamo BioSciences (SGMO)**, for its product applications in the newly industry-developed specifically targeted excitement of the human immune system. This claims attention of scientists as having major import for therapeutic treatments, especially for oncological applications. Trimming holdings of **Vertex (VRTX)**, **AXT (AXTI)** and **Cree (CREE)** and the sale of **Nektar Therapeutics (NKTR)** provided the source of funds.

PORTFOLIO COMMENTARY

Most of the following comments address general market circumstances, which, in fact, comprise the platform for the valuations of most equities, including young not-yet-well-established enterprises. In recent years, correlations have varied quite widely, leaving the young company sector unduly cheap. For illustration, one only need look at one of our holdings, **Harris & Harris Group (TINY)**. The Group invests with a team of PhD scientists (life and physical science) only in developmental-stage science. In the years 2004-2007, the shares sold at a premium to net asset value in recognition of the high growth prospects of the companies whose shares are owned by Harris & Harris, and the inherent value of the very brainy in-house team. These enterprises have attained good progress, their imputed values advanced, and substantially advanced for the two now publicly traded shares. The shares of TINY now trade between $3 and $4 versus the range of $7 to $23 in the 2003-2007 years. This seems to be a lucid illustrative proxy for the many discrepancies of valuation owing to attitudinal influences having little correlation with the realities of opportunities. Ensuing circumstances lead to our surmise that improvement in investor interest and in relative valuations will follow the persisting market uptrend, as sponsored from an abundance of money.

MARKET COMMENTARY

One could substitute "economy" for "justice" in the adage "the wheels of justice grind slowly but finely" and have an accurate depiction of where we are today. And so the wheels turn. We have written recurrently over the past that we are in slow growth recovery mode and that the fundamentals are in place for a very good market.

Rarely has there been so long an unrelenting general advance, certainly not an uptrend denied so much by so many throughout. For some persons, acrophobia set in early, and the talk and chant soon commonly seemed to express "look out, there is a long way to fall from here." (As an unintended consequence, denial has been a sustaining and extending factor.)

Only a few seemed to perceive that the physical aspects surrounding the stock market were uncommonly propitious all along the way, and are still so at present. When physical attributes are stronger than visceral personal attitudes, bet on the physical - demonstrated so recurrently in recent years as market contractions were held to fractions of market advances. Too few investors perceive our stock market in terms of fundamental money flow to or from the market. Only a minority recognize this to be the source of continuing support to rising share valuations for most established worthy enterprises.

The self regenerative forces in the American economy became effectively evident more than two years ago. When Mr. Bernanke recently commented (June 19) that stimulus-evoked buying by the Federal Reserve of US Treasury securities would probably be phasing out in months to come, the market spontaneously reacted as though this was an important denouement. Notwithstanding this was an obvious matter for months past, traders (short term) slammed the market, though quite opposite to the deeper, constructive meanings for the longer term.

The stimulus this country has needed (since the rescue from the consequences of mammoth financial misdeeds) is for governments to just get out of the way of private industry. And so it is also for certain other nations. The nations that are growing rapidly give support to their industries, while some others growing too slowly, including America, penalize their industries. Only a few days ago, a major journal remarked regarding what is Germany to do to recreate health in the Euro zone. A simplistic (but earnest) suggestion is just to get out of the way of their excellent enterprises and let these solve the problems naturally, as contrasted via national budgets and taxation.

The simplest, most obvious and least appreciated, of observations is that valid enterprises have been pulling the world ahead in recent years, while governments seem to be impediments. Just get out of the way - please - would be an effective policy (with the exception of addressing the unmet necessity to deal with aspects of financial entities).

If the American stock market be visualized in context of flows of funds out of a widely dispersed abundance of money, our list (with many omissions) would emphasize:

- overflowing corporate tills to buy in their own shares, to make strategic acquisitions (usually at premiums to market prices) as well as to buy money market instruments, and to increase dividends
- monies outflowing from bond investment prompted by increased awareness that investment-grade bonds have been and are lose-lose investments — lose vis-à-vis alternative secure dividends at several hundred basis points higher returns, and lose on principal as interest rates normalize higher and erode principal valuations (but not severely higher regarding the economy)
- the bubble of investing in commodities has reversed and looks to continue to do so. Since 2004 when commodities gained status as an asset class more than $440 billion has flowed into index funds and ETFs tracking broad commodity indexes while only $25 billion has been invested in U.S. stock funds. Much of this outflow will be directed towards equities.
- reallocations of monies formerly invested in shares still isolated for sake of safety that seems to be returning in increasing flow as encouraged by further advances in share prices generally

- inflows originating beyond American borders, encouraged by newly supportive developments for the dollar and by favorable (all things considered) valuations of American shares compared to their native shares, or shares in other nations

Money typically flows where it is best served.

Speaking in physical terms, the American stock market cannot accommodate such inflows at today's valuations. This is simply arithmetical; only higher prices that enlarge the total valuation can accommodate such volume. This explains much of the past several years, and prospectively many months hereafter.

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